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COMMISSION OF THE EUROPEAN COMMUNITIES

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**COMMISSION STAFF WORKING DOCUMENT**

**Annex to the report on the follow-up to 2004 Discharge Decisions -  
Council's Recommendations**

{COM(2006) 642 final}

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## INTRODUCTION

This Working Document completes the Report from the Commission to the Council on the Follow-up to 2004 Discharge decisions {COM(2006) 642 final}. It presents in detail the answers to the 79 specific recommendations made by the Council in the comments accompanying its Recommendations on the 2004 Discharges.<sup>1</sup>

In the Working Document reference is made to the Commission's proposal for a revised Financial Regulation<sup>2</sup> and the Commission's draft Regulation on the "linked" implementing rules<sup>3</sup> which follow up the simplification measures suggested in the proposal for amending the Financial Regulation. The latest revision of the Implementing Rules of the current Financial Regulation entered into force on 22 August 2006<sup>4</sup>. Further information can also be found in e.g. the Interinstitutional Agreement between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management (OJ No C 139 of 14.6.2006), the 2005 Synthesis Report on the Annual Activity Reports "Synthesis of the Commission's management achievements in 2005" (COM(2006) 277 final of 7.6.2006), the Commission's Action Plan towards an Integrated Internal Control Framework (COM(2006) 9 final of 17.1.2006), the Commission's communication on risk management (SEC(2005) 1327 of 25.10.2005) and the Commission's Green Paper on the European Transparency Initiative (COM(2006) 194 final of 3.5.2006).

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<sup>1</sup> For each specific recommendation a reference is given to the relevant Council document. The references for recommendations 1 to 54 are all for Council document 5971/06 "Discharge to be given to the Commission in respect of the implementation of the budget for the financial year 2004".

<sup>2</sup> Modified Proposal for a Council Regulation amending regulation (EC, Euratom) No 1605/2002 on the Financial Regulation applicable to the general budget of the European Communities (COM(2006) 213 final of 18.5.2006).

<sup>3</sup> SEC(2006) 866 final of 4.7.2006.

<sup>4</sup> Commission Regulation 1248/2006 of 7 August 2006, amending Regulation 2342/2002 of 23 December 2002.

## Annex to the report on the follow-up to 2004 Discharge Decisions - Council's Recommendations

### Introduction

1. Continue working towards the achievement of an effective integrated internal control framework. (§ 2, page 5)

**Commission's response:**

*The recommendation is accepted. The Action Plan towards an integrated internal control framework foresaw 16 actions under four broad themes aimed at simplifying and harmonising control practices, via information sharing and the use of a 'single-audit' approach to better target the limited control resources available. At this stage, priority actions have been launched, while others which depend on the results of prior actions, will be developed during 2007. Sufficient progress is expected to be made until the beginning of 2009.*

2. Regarding controls, take further measures and make improvements along the lines recommended by the Court, among others in the Court's opinion No. 2/2004 ("single audit model"), continue with the identification of weaknesses in the design and the operation of schemes and introduce appropriate remedial actions in the areas of direct, shared and joint management. (§ 4, 1st paragraph, page 6)

**Commission's response:**

*The recommendation is accepted. The objective of the "Commissions action plan towards an Integrated Internal Control Framework" [COM(2006)9] is to ensure and provide evidence that supervisory systems and controls are in place to keep the risk of illegality or irregularity of the transactions within reasonable limits. The Commission agreed to regularly report on the progress in the implementation of the Action Plan. Hence a reporting on weaknesses identified is considered as a part of the progress reporting since actions will focus on identified weaknesses.*

3. Pursue improvements regarding the clarity of the Directors-General's formulation of reservations. (§ 4, 2nd paragraph, page 6)

**Commission's response:**

*The peer review of potential reservations contributes to refine the definition of reservations in terms of content and consistency and represents a qualitative breakthrough in the use of materiality criteria and in the quantification of the impact of reservations. The continuous efforts regarding the definition of materiality, the improvement of the guidelines for Annual Activity Reports and the continuation of the peer review exercise will contribute to a better formulation of Directors-general's reservations.*

4. Complete the reform of the accounting system by establishing the opening balances for the preparation of the 2005 annual accounts and thus ensuring the accuracy of accounting information (§ 5, page 6)

**Commission's response:**

*The recommended action has been taken. The Commission has established its opening balance sheet and it was included as part of the 2005 provisional annual accounts. These accounts were presented on time to the Court of Auditors on 31 March 2006, as required by the Financial Regulation.*

5. As regards internal controls, develop further reliable, cost-effective and easily understandable indicators to be audited on an annual comparable basis by the Court of Auditors. (§ 6, page 6)

**Commission's response:**

*The recommendation is accepted. The 2004 Synthesis action on objectives and indicators is ongoing and aims precisely at analysing and defining relevant objectives and indicators for legality and regularity of operations. In addition, the Action 3a of the "Commission's action plan towards an integrated internal control framework" [COM (2006)9] should in future provide the ECA with improved presentation of the key internal control indicators used to support reasonable assurance.*

## The Statement of Assurance (DAS) and supporting information

6. Full implementation of the action plan for the modernisation of the European Communities' accounting system should enable the Commission to record the transactions relating to the various debtors item correctly and completely. (§ 1, 2nd paragraph, page 7)

### **Commission's response:**

*The recommended action has been taken. This problem was resolved by the introduction of the new accrual based accounting system in 2005.*

7. As regards legality and regularity of underlying transactions, all stakeholders in the budgetary implementation process to continue their work to improve financial management so that reasonable and verifiable assurance can be given that controls are in place which work correctly and effectively. (§ 2, 7th paragraph, page 8)

### **Commission's response:**

*As regards the Commission, the action plan towards an Integrated Internal Control Framework [COM(2006)9] foresees 16 actions under four broad themes aimed at simplifying and harmonising control practices, via information sharing and the use of a 'single-audit' approach to better target the limited control resources available. At this stage, priority actions have been launched, while others which depend on the results of prior actions, will be developed during 2007. Sufficient progress is expected to be made until the beginning of 2009.*

8. As regards the community internal control framework, improve the cost-benefit ratio and promote simplification and the requirement to build on existing control structures when addressing the weaknesses in the implementation of the supervisory and control systems. Reasonable assurance should be sought in a way which ensures that the current level of administrative and control costs does not increase and ensures elimination of multiple internal controls. (§ 3, 2nd paragraph, page 8)

### **Commission's response:**

*The recommendation is accepted. The "Commission's action plan towards an Integrated Internal Control Framework" [COM(2006)9] sets simplification as a goal for the next programming period. The Commission's proposal for the Rules for Participation for the 7th Framework Programme foresees that greater recourse would be made to the use of flat rates (including scale of unit costs) and lump sums within the terms of the Financial regulation. As regards low-value contracts and grants, the Commission proposes to let the authorising officer decide on the opportunity to verify exclusion criteria depending on his/her risk assessment. The legislative authority should pay the necessary attention to the feasibility of expected controls and their cost/benefit, so that the correct application of controls is as straightforward as possible.*

9. The opening balance for 2005 should be ready in time for the establishment of the 2005 financial statements. All aspects of the opening balance should be fully covered by rules and instructions similar for all services concerned. The Commission is invited to step up efforts to avoid that shortcomings affect the reliability of the 2005 financial statements. (§ 4, 1st and 2nd paragraph, page 9)

**Commission's response:**

***The recommended action has been taken. The Commission has established its opening balance sheet and it was included as part of the 2005 provisional annual accounts. These accounts were presented on time to the Court of Auditors on 31 March 2006, as required by the Financial Regulation.***

10. As regards the internal control system, improve management reporting tools, i.e. annual activity reports, declarations by the Directors-General and the synthesis report, by making further progress in the implementation of the key elements of the internal controls and by increasing the effectiveness of the procedures and tools used. (§ 5, 2nd paragraph, page 9)

**Commission's response:**

***The recommendation is accepted. The results of the Action 3a of the "Commission's action plan towards an integrated internal control framework" [COM (2006)9], will be considered for the AAR circular with a view to improving the reporting on key elements of internal controls in the 2006 AARs. Also the ongoing work at family-level on materiality criteria will contribute to improved reporting.***

11. Guidelines governing Annual activity reports and declarations of the Directors-General should be implemented in a more homogeneous manner in order to increase the assurance provided. (§ 5.2, 2nd paragraph, page 10)

**Commission's response:**

***In the 2005 Synthesis the Commission welcomed the overall improvement in the annual activity reports, generally more focused and explicit. This is the result of improved guidance, namely regarding increasing accountability through explicit declarations and an appraisal of the inherent nature and characteristics of the management, risk and control environment in which Directorates-General operate, and of the elements and results of the management and control system which support the assurances required in the declaration.***

12. As regards the Annual activity reports, the use and presentation of indicators need further improvements, and should include the presentation of appropriate information on key controls and on the characteristics of errors in order to allow the Court of Auditors to assess progress, as well as indicators on the effectiveness of action plans and the activity reports of Directors-General which indicate the state of implementation. (§ 5.2, 3rd paragraph, page 10)



**Commission's response:**

*The recommendation is accepted. The results of the Action 3a of the “Commission’s action plan towards an integrated internal control framework” [COM (2006)9], will be considered for the AAR circular with a view to improving the information on key controls and on the characteristics of errors in the 2006 AARs. In addition the 2004 Synthesis action on objectives and indicators is ongoing and aims at analysing and defining relevant objectives and indicators for legality and regularity of operations.*

## Budgetary Management

13. The Commission should, in collaboration with Member States, make more accurate and realistic budget estimates, and improve the multi-annual programming to take into account Member States' ability to absorb the funds within the foreseen period. (2nd paragraph, page 11)

**Commission's response:**

*The Commission has taken the recommended action. It always aims to provide accurate and realistic budget estimates, on the basis of the best available information. In 2005, more accurate budget estimates were reflected in a significant improvement in the implementation rate of payment appropriations, which rose to 98% (100% for Structural operations).*

14. The Commission should update its analysis on outstanding budgetary commitments for Structural Funds in order to identify the implications for the current and future programming periods. (3rd paragraph, page 11)

**Commission's response:**

*The Commission has taken the recommended action. The Commission regularly updates its analysis of outstanding budgetary commitments for Structural Funds and will continue to do so. The analyses take into account the latest available execution data and expected developments. In its latest assessment the Commission has given due regard to the switch to a new programming period. An extensive analysis of the outstanding budgetary commitments for the Structural Funds is published every year in a Commission Staff Working Paper (DG Budget) "Analysis of the budgetary implementation of the Structural Funds". The analysis for 2005 was published in May 2006.*

15. The Commission should pay specific attention to the risk that spending on the current programmes will be delayed even further than expected into the next period. (4th paragraph, page 11)

**Commission's response:**

*The Commission has taken the recommended action. Member States and the Commission are aware that vigilance is needed to ensure that the switch between cycles is made smoothly, both in terms of ensuring programme implementation, and of tackling the additional workload relating to the establishment of new programmes.*

*Part of the balance for programmes for the current period will be paid in the years 2007-2011 and will therefore overlap with the following period. This is entirely natural and foreseeable and is in line with the underlying Regulations.*

*In the present period the n+2 rule provides a powerful incentive to Member States to ensure that implementation proceeds at a sufficiently high rate, as funds not implemented in good time are decommitted.*

16. In its report on budgetary management, the Commission should provide supplementary information allowing comparison of actual with expected performance, and, as regards in particular Structural Funds, the Commission should provide an analysis on the operation of the year n+2 rule and its effects on budgetary execution. (*1st paragraph, page 12*)

**Commission's response:**

***The Commission has taken the recommended action. These analyses were provided in the DG Budget's documents Report on budgetary and financial management (March 2006) and Analysis of the budgetary implementation of the Structural Funds in 2005 (May 2006).***

## Revenue

17. As regards the electronic customs clearance systems, it is important to set up fall-back mechanisms. (§ 1, 3rd paragraph, page 13)

**Commission's response:**

*The Commission has taken the recommended action and has already requested Member States to improve their fall-back mechanisms for electronic customs clearance systems. In the longer-term action is also being taken as part of the project to introduce a modernised customs code by 2009. This new code will contain clearer provisions relating to the drawing up of rules for fallback procedures in the implementing provisions.*

18. As regards sugar levies, improve checks on Member States' communications. (§ 1, 1st paragraph, page 14)

**Commission's response:**

*The Commission has taken the recommended action. Starting in 2004, audits of the sugar Common Market Organisation (CMO) have taken place in twelve Member States in the framework of the Common Agricultural Policy (CAP) clearance of accounts. These audits have examined the assurance obtained by Member State control services concerning the accuracy of data reported by producers on their production and disposals of sugar and the accuracy of the information transmitted by Member States to the Commission. No serious problems were found apart from in one Member State.*

*The new sugar regime, effective 1 July 2006, suppresses the production levies to be paid by the manufacturers for the quantities produced under quota.*

*Under the new system, levies collected from the producers (contributions for industry restructuring under Council Regulation 320/2006 and production charges under the sugar CMO Council Regulation (318/2006)) should be paid by the manufacturers per tonne of quota allocated to the company (and no longer per tonne of production under quota). The amounts to be collected for each company will be independent of the quantities produced.*

*In the new implementing regulations, the Commission has strengthened the provisions on controls and sanctions in the event of infringements.*

*Measures are based on Member States' approval of the operators, and the obligation for these operators to hold registers. The implementing rules of the Commission provide for checks on the companies by the Member States' competent authorities, and the application of financial sanctions (500 €/tonne) or other penalties (withdrawal of approvals) in the event of infringement of Community legislation.*

19. Concerning the VAT resources, continue efforts to reduce the number of long-standing reservations. (§ 2, 3rd paragraph, page 14)

**Commission's response:**

*The Commission is in constant contact with the Member States' administrations with a view to lifting reservations, especially long-standing ones, as rapidly as possible. However, the pace of this work depends on the ability of national administrations to find and use better data, indeed any data at all in certain cases, or a suitable or more suitable methodology. The Commission provides regular advice to Member States on these matters.*

20. As regards the GNI resources, continue, through the GNI Committee, to encourage best practises for the quality of supervisory and control systems in respect of the National Accounts compilation. ((§ 2, 4th paragraph, page 14))

**Commission's response:**

*The Commission will discuss the issue of supervisory and control systems related to national accounts with the Member States in the GNI Committee in 2006. The Commission will then make suggestions for promoting best practices in 2007.*

## The Common Agricultural Policy

21. Make further progress concerning the control system in areas that are not checked through IACS (e.g. subsidies paid on the basis of quantities produced) where recurrent errors still occur. (§ 1, 2nd paragraph, page 15)

**Commission's response:**

*The Commission is taking the recommended action. It is committed to address continuing shortcomings still existing in the different areas of the CAP. In this context, it should be noted that the CAP reforms of 2003 and, for Mediterranean products, of 2004 reduce the overall risk by extending the expenditure covered by IACS to 89% by 2013.*

22. Make post-payment checks a more valuable tool in the identification of irregular CAP payments, in particular by addressing the deficiencies in the data, by reporting on the value of transactions tested and irregularities detected, as well as by assessing the quality of checks performed. (§ 2, 3rd paragraph, page 15)

**Commission's response:**

*The Commission has taken the recommended action. 10 audit visits were carried out in 2004 and 2005. 8 further missions on the application of Regulation 4045/89 to cover the general aspects are envisaged for 2006. In that respect, the compliance units will continue in 2006 to evaluate the Regulation as part of their missions covering specific sector related issues. Furthermore, an amendment to Regulation 4/2004 laying down detailed rules for the application of Regulation 4045/89 was adopted by the Commission on 10 January 2006. These changes address the weaknesses indicated by the Court in the 2004 Annual Report with regard to reporting requirements.*

23. As regards clearance of accounts, further attention is required in a number of areas such as advances and securities; debts; follow-up of financial errors detected during previous certification audits; sampling and error evaluation; checking maximum guaranteed quantities; as well as weaknesses identified in the field of rural development regarding in particular the complexity of the current system and the difficulties to check it. (§ 3, 1st paragraph, page 16)

**Commission's response:**

*The Commission has taken the recommended action. The qualifications and negative opinions are for limited amounts, and refer in the great majority of cases to particular aspects and particular measures within the 20 paying agencies concerned.*

*The Commission has initiated a procedure to recover any material undue payments; Article 8 letters have been sent to the Member States concerned.*

24. As regards the Annual Activity Report of the Director-General, indicate separately in the Director General's declaration verified expenditure and expenditure subject to further checks. (§ 4, 2nd paragraph, page 16)

**Commission's response:**

*The Commission will not be taking the recommended action. It is of the opinion that it would not be appropriate in the DG AGRI Annual Activity Report (AAR) to distinguish between expenditure which has already been verified during the year concerned and expenditure which will be subject to further verification. Given the multi-annual nature of the conformity clearance process, such a distinction would be largely arbitrary; it would also prejudice the Member States' right of defence in the context of the clearance of accounts procedure.*

*In any case, DGs did expand their 2004 and 2005 AARs to further explain the basis for the Director General's annual declaration of assurance. The entire chain of controls and (in the DG AGRI AAR) the clearance of accounts procedures were presented in detail, showing how these elements contribute to the overall assurance, which is built on all sources of information at the disposal of the Director General. Furthermore, in the 2005 AAR, DG AGRI gives an indication of the level of financial corrections likely to be imposed on Member States for the 1999-2005 period. The same is true of the annual accounts, where the Commission makes the necessary disclosure of the amounts it still expects to be recovered through the clearance of accounts process.*

25. Remedy the weaknesses identified by the Court in the area of spending on animal premiums as well as in the area of subsidies paid on the basis of quantities produced. (§ 5, 3rd paragraph, page 16)

**Commission's response:**

*The Commission is taking the recommended action. The weaknesses identified by the Court of Auditors in the area of spending on animal premiums do not concern the effectiveness of the IACS control system in itself. Indeed the direct testing performed by the Court did not reveal any significant errors (point 4.42 of the 2004 Report). The problem identified consists mainly in high percentages of errors identified at farmer's level by the IACS inspections, particularly in certain Member States. The Commission will continue to identify more precisely the reasons why IACS statistics show for certain Member States high rates of mis- or over-declared animals and recommend appropriate actions.*

26. Finalise in-depth review of the Common Market Organization (CMO) in the banana sector, with an aim of better defining the objectives of the CMO and to improve its management. (§ 7, a), page 17)

**Commission's response:**

*The Commission has taken the recommended action. It has included in its annual work programme for 2006 the presentation of a reform proposal for the Common Market Organisation (CMO) for bananas. In the framework of this exercise, the objectives of the CMO as well as its management are being reviewed. An external evaluation of the bananas CMO has been carried out and was published in November 2005. It is available on the following website:*

*<http://europa.eu.int/comm/agriculture/eval/reports/bananas>.*

*An in-depth impact assessment of the banana CMO is expected to be published with the reform proposals in September 2006. A wide consultation of all stakeholders took place: following the debate launched with the publication of the evaluation, and a series of hearings with interested parties and stakeholders, the Commission steering group set up to analyse the impact of the reform published the topics and options that are being explored, along with a call for contributions.*

*The consultation document is available on Europa:*

*([http://europa.eu.int/comm/agriculture/consultations/banana/index\\_en.htm](http://europa.eu.int/comm/agriculture/consultations/banana/index_en.htm)).*

*It was presented to a group of banana professionals on 3 April 2006, the consultation remaining open until 8 May 2006. The findings of both reports as well as those resulting from this wide consultation will be taken into consideration when elaborating the above mentioned reform proposal for the banana CMO.*

*Honouring the agreement concluded in 2001 with the United States and Ecuador, the Commission has, in the meantime, put to the Council a proposal to switch (as from 1 January 2006) to a tariff-only import system for bananas and to maintain a zero duty for a 775.000 tonnes yearly quota for bananas from ACP-countries. This proposal was adopted by the Council. The Commission has also adopted appropriate provisions for the management of the ACP quota based on the phasing-in of a first-come first-served system that will offer simplification and improvement.*

*Finally, in order to improve the control environment and to take account of the interest of the legitimate traders, the Commission amended the provisions for checks on the weight of fresh bananas for free circulation in the Community (Regulation (EC) 402/2006 of 8 March 2006).*

27. Present proposals to repeal pre-financing of Export Refunds. (§ 7, b), page 17)

**Commission's response:**

*The Commission is taking the recommended action. It has evaluated the role of the prefinancing of export refunds since the entry into force of Commission Regulations (EC) n° 444/2003 (horizontal matters), 2010/2003 (equivalence), 456/2003 (beef), 500/2003 (cereals) and 740/2003 (Non-Annex I). The use of the prefinancing system became economically insignificant, with an exception for the beef sector, predominantly for its control function.*



*The Commission is working on the necessary steps to abolish the system of prefinancing export refunds, while for the beef sector an alternative production and storage control system will be introduced. These measures should be in place by the end of 2006.*

28. As regards potato and cereal starch, take on board also the other recommendations suggested by the Court (on definition of checks by national authorities and data regarding the structural disadvantage of potato starch producers). (§ 7 c), page 17)

**Commission's response:**

*The Commission has taken the recommended action in respect of definition of checks by national authorities. It carried out audits in 2004 to Germany and the Netherlands allowing the clarification of a number of issues within the clearance of accounts procedure.*

*In addition, within the reform, plausibility checks with areas planted have been imposed as of 2004 which should further enhance the control system.*

*The Commission will not be taking the recommended action in respect of data regarding the structural disadvantage of potato starch producers. Given the oligopolistic structure of the potato starch industry, the companies regard their cost structure as highly sensitive and consequently keep them confidential. The Commission has therefore only limited access to information regarding the structural disadvantage of the potato starch producers. As, in addition, there are no official price quotations for different varieties of starch like stock exchange quotations, the Commission had no basis for proposing a change of the compensatory premium, subsequently maintaining it unchanged.*

## Structural Measures

29. The Commission and the Member States should seek to optimize the effectiveness, economy and efficiency of the current control systems, and the Commission is invited to assess the management and the control systems governing the multi-annual programmes. (§ 1, 2nd paragraph, page 18)

### Commission's response:

*The Commission is taking the recommended action. A review of the control system for the Structural Funds was carried out in 2005 in a "gap assessment" exercise aimed at identifying the improvements necessary to make the system more effective in preventing and correcting errors. The results were set out, alongside those for other management modes, in the "Roadmap to an integrated internal control framework" (COM(2005) 252) and discussed with the Council, Parliament and the European Court of Auditors. The final list of required actions in the "Action Plan" of 16 January 2006 (COM(2006) 9) include a number seeking improved economy and efficiency. Of particular importance for systems in the Structural Funds are the analysis of the quality of existing controls and declarations (action 13), to be completed by the end of 2006, and the survey of the costs of controls (action 10), to be completed by September 2007. In early 2006 the Commission issued notes on good practices in day-to-day checks by management and in paying authorities' work before certifying payment claims, which by setting a benchmark should help Member States to make the controls more effective and avoid overlap. The work being undertaken to coordinate audit standards (action 16) and intensify the sharing of audit results (action 9) should also foster economy and efficiency as well as helping to make the control system function more effectively.*

30. Further efforts required in order to fully comply with the baseline requirements of the internal control standards. (§ 2, 3rd paragraph, page 18)

### Commission's response:

*The Commission is taking the recommended action. In fact, the European Court of Auditors has found that the Directorates General responsible for the Structural Funds have complied with the baseline requirements of the internal control standards with few exceptions since 2003. Like all other Commission departments, the Structural Fund DGs are continuing to make their application of the standards more effective in the service of the control and supervisory system.*

31. Concerning the implementation of operational programmes, improvements are still required to achieve compliance with the Community regulations in the current period. (§ 2, 4th paragraph, page 18)

### Commission's response:

*The Commission is taking the recommended action. It is using all the means available to it for the performance of its supervisory role to bring about improvements. These means are (a) its own audit work, which is followed up with recommendations to the programme authorities to correct weaknesses or the*

*agreement of action plans, which are monitored (by the end of 2005 the Structural Fund Directorates General had audited programmes representing 62% of the total decided amount of the EU contribution to 2000-06 programmes); (b) monitoring of Member States' audit work on the basis of their annual control reports and annual bilateral meetings with the Commission; (c) the issue of guidance on good control practices (for example, for day-to-day management checks and the certification function of paying authorities); and (d) financial corrections for control failures that have led to irregular expenditure being declared and reimbursed (so far financial corrections applied to 2000-06 period programmes have totalled €1.4 billion). The Structural Fund DGs assess the degree of compliance of systems in Member States with regulatory requirements in their Annual Activity Reports. For 2005 the Structural Funds DGs made reserves for only two Member States.*

32. Assess the implementation of the current regulations concerning inter alia sample checks on operations, paying authorities and winding up bodies' activities. (§ 2, 1st paragraph, page 19)

**Commission's response:**

*The Commission is taking the recommended action. These elements of the control system are all assessed in the Commission's audits. The results from audits by the Commission are summarised in Annual Activity Reports. Where deficiencies are found, recommendations for improvements are made and the implementation of the recommendations monitored. In order to promote good practice on these elements of the control system guidance notes have been issued by the Commission on management checks, checks by paying authorities as a basis for certification of expenditure declarations, and sample checks by audit bodies, while the work of winding-up bodies is covered in the guidelines for closure of 2000-06 programmes which are to be issued shortly.*

33. Ensure that the management and control systems meet the regulatory standards, that the operation of the systems is regularly review and, in cooperation with the Member States, that the financial control objectives set out in the Regulations are achieved. (§ 2, 2nd paragraph, page 19)

**Commission's response:**

*The Commission is taking the recommended action. The Commission's audit work, monitoring of the audit results of national audit bodies, and guidance activities are all designed to bring about the necessary improvements in systems so that the objective of financial control – to obtain reasonable assurance that the expenditure reimbursed is free of error and irregularity - is achieved.*

34. Take further measures to improve the performance of the day-to-day management checks of operations, including checks at the premises of beneficiaries, rather than relying solely on documentation. (§ 2, 3rd paragraph, page 19)

**Commission's response:**

*The recommended action has been taken. In May 2006 the Commission issued to Member States a note on good practice in such checks. One of the matters emphasised in the note is the need to carry out checks on the premises of the project promoter.*

35. As regards the closing of 1994 to 1999 programmes, make any necessary proposals for appropriate financial corrections and subsequently recover irregular expenditure. (§ 2, 4th paragraph, page 19)

**Commission's response:**

*The Commission is taking the recommended action. By the end of 2005 proposals for financial corrections for irregular expenditure or unsatisfactory closure documents totalling € 1.1 billion had been accepted by the Member States concerned. Further corrections are contested and will be imposed through formal decisions. Corrected amounts are recovered by deduction either from the final payment to the closed programme or from interim payments to 2000-06 programmes.*

36. Ensure that lessons from the closing of programmes for the 1994 to 1999 period are applied for the 2000 to 2006 and subsequent periods. (§ 2, 5th paragraph, page 19)

**Commission's response:**

*The recommended action has been taken. For the 2000-06 period closure, the Commission has already discussed the preparations with Member States and is about to issue a detailed guidance document. In the new period the new regulatory requirements (ex ante compliance assessment and annual audit opinion) will ensure that the supervisory and control systems can operate effectively from the beginning, despite simultaneous work on closing 2000-06 programmes. The provisions on partial closure should also achieve an even more significant improvement in the closure arrangements.*

37. As regards annual activity reports, take into account all the Court of Auditors' remarks, and present in each annual activity report the measures taken to limit the risk of error in the underlying transactions together with an assessment of their effectiveness. (§ 3, 1st paragraph, page 20)

**Commission's response:**

*The recommended action has been taken. In their Annual Activity Reports the Directorates General give a full account of the measures they have taken to this end and set out their assessment of the success of the measures in terms of providing assurance that the underlying transactions are regular.*

## Internal policies, including research

38. The legal framework should be changed to simplify cost reimbursement systems, and the procedures and instructions governing the different programmes should be clarified. (*1st paragraph, page 21*)

### Commission's response:

*1. Concerning the legal framework, this has been done in the Commission's proposal for the revision of the Financial Regulation and its Implementing Rules. It has also been done in the Commission's proposal for the FP7 Rules for Participation (EC) adopted on 23.12.05 (same principles for the proposal for Euratom rules were adopted in early February 2006).*

*Simplification measures for FP7, including those in the Commission Staff working document "Simplification in the 7th Framework Programme" have been reviewed and discussed in two conferences on simplification (one held in Luxembourg in June 2005, jointly organised by the Commission, Court of Auditors and Luxembourg presidency with Member State and Associated State representatives and one in Brussels in September 2005 with representatives of stakeholders) and by members of the Sounding Board of smaller actors. In addition, contributions from a wider audience have been solicited via a consultation website.*

*Simplification measures have been introduced in legal acts such as the Rules for Participation and will be further detailed in guidelines, internal procedures etc. The ten measures proposed in the Simplification staff working document are:*

- 1. A simple set of funding schemes which provide continuity with FP6 instruments but greater flexibility of use*
- 2. Consistent, high-quality communication*
- 3. Rationalisation of requests for information from participants*
- 4. Protecting the Community's financial interest without imposing undue burdens on participants*
- 5. Full operational autonomy to be entrusted to consortia*
- 6. Streamlining the selection process*
- 7. Most effective use of the research budget*
- 8. Increased use of flat-rate and introduction of lump sum financing*
- 9. Further clarification of eligible costs*
- 10. Simplified support rates*

*2. Concerning the clarification of the procedures and instructions in previous Framework Programmes, this recommendation has been accepted and is*

*considered completed. It has been implemented within the Action Plan elaborated following the Synthesis Report of the Annual Activity Report 2001.*

*Several measures have been adopted in order to improve the contract management such as:*

*For FP5:*

- towards the contractors: informing them at the time of signature of contract and at the time of payment of each cost statement and reminding them of the possibility of financial audit; reminding co-ordinators of their responsibilities; improving and structuring the CORDIS 5FP management helpdesk on contract questions; providing contractors with the main results and problems identified during financial audits, in order that they avoid similar errors and problems; increasing the number of “desk audits”;*
- towards the Commission’s officials: further and common training DGs on financial management issues in order to ensure that a reasonable number of projects is being managed by closing off contracts as soon as possible (ensuring the timely financial closure of projects), minimising contract extensions etc.*

*For FP6:*

- towards the contractors : the model contract web site is kept updated with all the relevant information relating to special clauses and associated guidance for their use, guidelines for amendments, guide to financial issue, FAQs, translations of model contracts, etc. to ensure that contractors are aware of contractual issues;*
- towards the Commission’s officials : a number of documents have been provided to clarify and coordinate actions between the research DGs; two cross-DG seminar on legal aspects relating to FP6 projects have been held in December 2004 and February 2005.*

*Regarding the Trans-European Network of Transport programme (TEN-T), the Commission has taken the first steps towards simplifying the administrative process (by merging the preliminary and detailed application for non-MIP proposals in 2004). Cost statement models are annexed to the TEN Decision since 2005. The Commission is examining how to further simplify the application and evaluation process.*

39. Ensure the implementation and functioning of baseline requirements of the Internal control Standards (ICS), particularly to further improve risk management, and use the audit results to develop management and control systems as well as to clarify and simplify the procedures and instructions of the programmes in this area . (§ 1, 2nd paragraph, page 21)

**Commission's response:**

*The Commission is continuously working on the development and adaptation of its internal control system in order to manage the risks linked to its environment.*

*Major steps were taken in 2005 to introduce a systematic approach for risk analysis, assessment and management.*

*A risk framework was developed in 2005. A comprehensive strategic risk analysis was conducted, and is currently implemented in the Annual Management Plan 2006.*

*DG RTD requested an annual assessment of an external consultant in January 2006 which showed that there was an effective progress in all areas of internal control. DG Research will further improve its system towards a risk-based approach including a cost-benefit assessment.*

*DG ENTR showed compliance with all 75 baseline requirements. It focussed on the improvement of the monthly management scoreboard which enables management to ensure adequate follow-up of key resources and objectives. An external evaluation of the effective implementation of standards in relation to human resources management was carried out. A specific review on the implementation of all standards in case of the creation of a new unit (since there were cases where new units arrived from other DGs) was carried out.*

*DG INFSO has reduced the number of ICS baseline requirements which were only partially implemented to only 1 (down from 4 in 2004).*

*The Commission's services also used the audit results to evaluate the control environment in which the programmes are being managed. In this context, the issue of the frequency of errors in cost claims has been taken into account to improve the controls in FP6 (e.g. the introduction of audit certificates and penalties) and to simplify the upcoming FP7 (e.g. more use of lump sums and flat rates).*

*Following its 2005 Gap Assessment exercise, the Commission has now launched its Action Plan towards an integrated internal control framework which would contribute to solve the issues currently giving rise to the absence of a positive declaration of assurance. The specific action plan developed will be implemented by the services. The main areas of work will be ex-post control strategy, the use of audit results to develop management and control systems, the financial circuits, the overall system of supervision put in place in the financial domain and the monitoring and reporting systems.*

40. Maintain at least the current number of (ex post) audits. (§ 1, 3rd paragraph, page 21)

**Commission's response:**

*The Commission is taking the recommended action. It is maintaining the overall number of financial audits on cost claims based on research contracts.*

*A substantial number of audits was launched in 2005. Actions are taken to close a considerable number of audits in 2006 in the field of research. Moreover, a new framework contract to audit FP6 contracts has been signed and FP6 audit batches are about to be launched.*

41. As regards a common IT system for the management of indirect RTD actions, pursue efforts to overcome the difficulties in particular in integrating the heterogeneous needs of the different Directorates-General. (§ 2, 4th paragraph, page 21)

**Commission's response:**

*The Commission is taking up the recommended action. The situation depends on the Framework Programme:*

*Concerning the 5th Framework Programme:*

*The formal implementation period of the 5th Framework Programme is closed, though projects are still ongoing. The action that has been taken was to implement a common data warehouse with information on financed projects that can be used for consultation or reporting. Moreover a common expert registration tool and a common a common electronic submission tool (Pro-tool) has been realized and used.*

*Concerning the 6th Framework Programme:*

*A common management structure for supervision (IT Programme Steering Committee) was implemented in summer 2004 between all research DGs replacing earlier arrangements.*

*A Commission corporate IT system has been implemented for those procedures where the different services use similar, integrated workflows (Proposal submission, Expert registration and selection, Proposal evaluation, Contract Preparation, Contract Management). However, the research family has also to meet the needs of other programmes which are managed outside the framework programme supported by dedicated IT-Systems. For federating these systems a common data warehouse is under development and "calibration exercise" are recommended by the supervising body (IT Programme Steering Committee) because of different user requirements and workflows.*

*Concerning the 7th Framework Programme:*

*The specific development can take place when the business procedures for FP7 and their supporting reference documents are available. In the meantime, however, the following actions are being taken:*

*Follow a two-step strategy towards IT provision accepted by the IT Programme Steering Committee:*

- *Step 1 (for initial operations of FP7 from 1st January 2007): adapt existing FP6 IT systems to FP7 processes as they emerge (this requires FP7 processes to be streamlined and information systems to be developed in parallel). Analyse in that context the results of the integration of the IT systems developed for FP6 and improve the systems where possible.*



- *Step 2 (within 2-3 years from initial operations of FP7): renew the information systems in the light of the establishment of external agencies, and of the experience of the initial operations in FP7. For that process, mandate accordingly an IT steering group and embrace "RUP" development methods (in accordance with the governance recommendations of DG DIGIT) for all services, in order to narrow the gap between business decisions/actions and IT decisions/actions.*

42. As regards the 6th Research and Technological Development (RTD) Framework Programme, accelerate the process of improving the effectiveness of audit certificates in detecting errors in the costs declared by beneficiaries. (§ 2, 4th paragraph, page 21)

**Commission's response:**

*The Commission is taking the recommended action.*

*An interdepartmental report on the functioning of the audit certificate system produced by the Interdepartmental Audit Certificate Working Group (IACWG) is now to contribute to a systematic analysis of audit certificate experiences by focussing on the financial reliability of the certification system and specific practical problems observed in the certification process. This action is based on a number of individual audits carried out by the external audit functions of the research DGs involved (known as IPAAC Inter-departmental Pilot project on the Assessment of the Audit Certificate system). The IPAAC I report is about to be published and the findings and recommendations of the report are likely to steer and improve the audit certificate system. Therefore the Commission is of the opinion that it has made a first assessment of the reliability of the audit certificates.*

*As an effect of this, various actions have been undertaken in the Commission services:*

- *improvement of the understanding of audit certificates;*
- *examination of the practice on appointing competent public officers;*
- *definition of a workflow/decision diagram to process audit certificates;*
- *definition of an audit certificate assessment record (checklist);*
- *definition of criteria on 'deviating' audit certificate;*
- *availability of a list of operational/concrete Q&A's.*

*In addition, a second IPAAC exercise, this time based on twenty DG RTD audits to be carried out by DG RTD own audit staff, is being launched to provide a broader basis for the assessment of the reliability of the audit certificate system. Also, an audit certificate task force (AC clinics) had been set up within DG INFSO. This informal group frequently met over the summer period 2005 and mainly discussed concrete audit certificates (health checks). This was instrumental in developing a common approach on the handling of audit certificates in DG INFSO.*

## External Actions

43. As regards DG ECHO, clearer instructions regarding external audits and follow-up are needed. ((2nd paragraph, page 22))

**Commission's response:**

*The instructions to the external auditors are established in terms of reference, which are subject to continuous update by means of technical bulletins. This on-going process is complemented - whenever necessary - by discussions during the monthly co-ordination meeting with the external auditors.*

*Follow-up of audit recommendations is assured in the following audit of the NGO, during which the recommendations of the previous audit report are evaluated. This evaluation is documented in the audit reports under chapter 3.4, where the partners' actions to these recommendations are also included. Financial follow-up, in case of recoveries, is assured by DG ECHO's financial management unit.*

44. Strengthen external audits at the level of organisations implementing projects funded by EuropeAid, in particular by strengthening the reporting of the results and the respect of the conditions for EU financing, by continuing to better develop reporting systems, by increasing audits and by improving terms of reference and follow up. (4th paragraph, page 22, and 1st paragraph, page 23)

**Commission's response:**

*The Commission is taking and has in recent years already taken a number of actions to address these issues. These include a comprehensive audit strategy and the establishment of annual audit plans based on a risk analysis of the projects to be audited. Efforts to further improve reporting and the consolidation of audit results have also been pursued. Centralised monitoring of audits has been established. EuropeAid ensures that checks and their follow up by the delegations are adequate including testing of samples from these audits.*

*Improvements in the quality of the already extensive control checks are also being pursued, notably through the use and improvement of standard contract provisions, including the audit certificates to be submitted by the beneficiaries of Community funds prior to final payments. For instance, standard Terms of Reference including a reporting model for expenditure verifications included in terms and conditions of grant and service contracts have recently been issued. These specifically address compliance with the contract terms including those relating to procurement and eligibility.*

*At project level, the standardised toolbox of planning, partners' selection and monitoring instruments in use in the Commission allows due account to be given to risks and to take action to manage or mitigate them all along the project lifecycle.*

45. As regards the supervisory and control systems at Delegations' level, results of project audits should be systematically communicated to and followed up by

headquarters, information relating to audit should be recorded in EuropeAid Common Relex Information System (CRIS) and linked to project management information and the terms of reference for the audits of projects should be more specific in their requirements in order to facilitate the quality control checks to be carried out by the Commission. (2nd paragraph, page 23)

**Commission's response:**

*A centralised audit planning and monitoring system is in place. EuropeAid ensures that the checks and their follow up by the delegations are adequate including testing of samples from these audits.*

*It should be noted that audit contracts managed by the Commission are all recorded in CRIS. As regards CRIS-Audit, a specific module of CRIS, aiming at providing a database on audit information, the Commission intends to further improve its operation building on the experience gathered. The aim is to simplify and standardise the data to be introduced with a view to allow a better exploitation of the system at both Headquarters and Delegations.*

*Moreover, the Commission has made further improvements to the standard terms of reference for "certification audits" to which beneficiaries and the bodies responsible for implementation must adhere when selecting and contracting auditors. The conditions set are such as to reinforce the assessment of compliance with contract terms by beneficiaries are abiding by the terms of their contracts, particularly those relating to the awarding of contracts and the eligibility of expenditure.*

## Pre-accession Strategy

46. For Bulgaria, Romania and Turkey, the Council invites the Commission to continue to ensure the effective performance of its ex ante approval by the EC Delegations as the national supervisory and control systems in those countries are not satisfactory. (§ 1, 2nd paragraph, page 24)

**Commission's response:**

*The recommended action has been taken. The Commission has drawn the attention of the national authorities to take urgent corrective measures in relation to the present Decentralised Implementation System (DIS) with ex-ante control on procurement and award decision.*

*As the Commission is aware of the weaknesses in the implementing bodies, any increase of the amounts of the pre-accession assistance is conditional on the improvement of management and control capacity. Hence, the Commission does not exclude limiting these allocations if the conditions are not fulfilled.*

*For ISPA in Romania, the Commission decided on 28 June 2006 to waive the ex ante approval requirement referred to in Article 12(1) of Council Regulation No 1266/99 for all implementing agencies, based on a positive assessment of their management and control systems. It expects to do the same for ISPA in Bulgaria later on in the year.*

47. The Council invites the Commission to continue the work towards clearer instructions to the contracted auditors, appropriateness of expenditure declared and more successful transfer of experience gained from the implementation of the decentralised system of management (DIS). (§ 1, 3rd paragraph, page 24)

**Commission's response:**

*The recommended action has been taken. The Commission's instructions on reporting are set out in the terms of reference of the contract concerned. More specific details are provided for each individual assignment when they are launched, where necessary identifying specific risks which the auditors are expected to address. The contracted auditors are convened once a month to discuss progress on each audit.*

*The guidelines on appropriateness of expenditure were streamlined. The Commission has already spread best practices and provided information and training e.g. through the seminar on 'lessons learned' held in 2005.*

48. The Council underlines the Court's comments in relation to national co-financing, in particular concerning weaknesses in reporting, late delivery of Final Declarations, the need for a better overview of these projects, the establishment of eligibility rules for and verification of parallel co-financing and it invites the Commission to pursue its efforts in order to improve the management of these agreements. (§ 2, 4th paragraph, page 24)

**Commission's response:**

*In June 2004, an instruction note was sent to the National Authorising officers, amending the format of the co-financing contribution statement in order to enhance the verifications made at their level.*

*As for the final declarations from the national authorities, they were submitted to the Commission within a reasonable timeframe. Improved reporting standards required by the Commission may have had a delaying influence on the submissions.*

*The overview has been improved as within the Delegations, updated project fiches are used to check the co-financing declarations made in the requests for funds by the National Authorising Officer.*

## Administrative expenditure

49. The agencies, with an extended assistance of the Commission from whose experience and interinstitutional services they can benefit, should comply with the relevant legislation in force as regards the procedures used for staff recruitment and public procurement. (§ 2, 3rd paragraph, page 26)

### Commission's response:

*The agencies are independent institutions and it is their responsibility to comply with the relevant rules and procedures for staff recruitment and public procurement. Where the agencies request it, the Commission provides assistance and support, e.g. to help them to understand and interpret the rules.*

*As regards procurement, the Commission already provides training for agencies on financial issues. Training is provided on request giving an overview of financial management, of procurement rules and of the impact of the revision of the Implementing Rules of the Financial Regulation. The Commission also provides advice to the agencies, which have access to the Commission's Financial Helpdesk. Over 100 replies to consultations on issues of financial management were provided in 2005. The Commission is continuously represented by various customised training sessions and briefings in the IALN ("Inter Agency Legal Network") on recent financial management issues, especially related to procurement.*

*On 16 December 2005 the Commission adopted guidelines for personnel policy in regulatory agencies, which recommend a standardisation of agencies' selection procedures through a greater involvement of EPSO. Moreover, EPSO has already initiated a structured approach to cooperation with the agencies. A 2 days seminar for the agencies was run by EPSO in October 2005 addressing a series of issues linked to selection procedures, including legal and organisational aspects, as well as the use of new communication/information tools and IT management tools. The further development of this cooperation is on-going and will be pursued both bilaterally and with all agencies. In one case, EPSO has assisted an agency in the organisation and completion of an internal selection procedure.*

*Moreover, as a result of a series of meetings between the Commission services and the executive agencies, a model Service Level Agreement (SLA) was drawn up, giving these agencies access to a number of services delivered by DG ADMIN in the fields of recruitment, medical services, access control, training, security and hygiene at work, etc. Agencies can choose to sign such an SLA and obtain the said services at "production" cost. The Commission will examine which elements of these Service Level Agreements could be extended to the regulatory agencies.*

50. The Agencies and the Commission should intensify their cooperation in order to further improve the implementation of the accrual based accounting system. (§ 2, 5th paragraph, page 26)

**Commission's response:**

*The recommended action has been taken. The Commission has guided the Agencies extensively on the new accrual accounting requirements since the year 2003. The Commission has arranged general and bilateral meetings where the accrual accounting rules have been discussed together with the Accounting Officers of the Agencies. The Commission has also provided the Agencies with accounting manuals, reporting instructions and a permanent helpdesk function concerning accrual accounting. Furthermore, the Commission has offered the Agencies the option to be integrated into the same accounting system as the Commission. One traditional agency and two executive agencies have been integrated in 2006 and several are to follow from the year 2007 onwards.*

51. Internal Control Standards should be fully implemented by the Institutions. (§ 1, 2nd paragraph, page 25)

**Commission's response:**

*The Commission is taking the recommended action: it adopted its internal control standards in 2000 and does a yearly follow-up of the implementation of the related baseline requirements; the mentioned implementation is regularly followed up both from a compliance as well as from an effectiveness point of view. In 2005 95% of the baseline requirements were complied with compared to 93% in 2004, which could be considered as being practically fully implemented in an ever changing environment.*

52. Particular attention should be paid to the various technical weaknesses detected in the implementation of the NAP (new payroll system), to an accurate application of the staff regulations in respect of travel allowances, to the improvement of the control systems concerning the transfer of part of the staff emoluments and the pension payments, as well as to the strengthening of the supervisory systems for procurement. (§ 1, 4th paragraph, page 25)

**Commission's response:**

*The recommended action has been taken:*

- The technical weaknesses of the NAP have been corrected, as confirmed by point 10.6 of the 2005 report of the Court.*
- For travel allowances, internal Commission rules will be revised to apply more accurately the staff regulations.*
- The remarks about the transfer of staff emoluments and pensions payments concerned the other institutions, not the Commission.*
- All services concerned have taken corrective measures in the course of 2005 to strengthen the supervisory systems for procurement.*

## Financial instruments and banking activities

53. Increase the level of assurance concerning the participation in the European Investment Fund (EIF) and, as a consequence, improve management information, in order to ensure accountability. (§ 1, 1st paragraph, page 27)

**Commission's response:**

*The recommended action has been taken. The participation in the Board of Directors of senior officials from the three services with the greatest policy interest in the EIF activities is the best assurance of the protection of the Community interest.*

*The introduction in mid 2005 of a Compliance Function in the EIF with a particular mandate to ensure appropriate compliance arrangements are in place with respect to EU policies and legislation further enhances this assurance. The Commission is working closely with the EIF to help ensure the effectiveness of this new function.*

54. Take appropriate measures in order to ensure that the assets held by financial institutions on behalf of the Commission are subject to regular and adequate monitoring. (§ 2, 2nd paragraph, page 27)

**Commission's response:**

*Since the introduction of the new accounting system as from 1.1.2005, the authorising officers of the Commission have better tools at their disposal to monitor the assets under their responsibility. Moreover, the information is better centralised in the accounting system so that it can be reported by asset category in the annual accounts.*



## Recommendations concerning individual agencies

55. As regards the European Environment Agency, the Agency and the Commission should take further steps to obtain reimbursement of all unwarranted payments regarding recoverable taxes. (*Doc 5972/06, 3rd paragraph, page 7*)

**Commission's response:**

*The Commission is taking the recommended action. Some of the monies have been repaid but not all of it. The remainder has been promised but there are still discussions ongoing at the level of the Danish authorities about who should repay what. The Danish Protocol is working on the pre-2005 tax return. Negotiations are continuing 'at the highest political level'.*

56. As regards Eurojust, the Council takes note that Eurojust is waiting for the Commission's opinion and consent before adopting its own Financial Regulation. It expects an adoption and an implementation of the Financial Regulation as soon as possible. (*Doc 5972/06, 2nd paragraph, page 19*)

**Commission's response:**

*The Commission has already acted on this recommendation. The decision granting the exemptions requested by Eurojust in respect of its Financial Regulation was adopted by the Commission on 30 March 2006 (C(2006)1479) and notified by the Secretary-General to Eurojust on 31 March 2006.*

57. As regards the Translation Centre for the Bodies of the European Union, the Council is disappointed of the fact that the conflict with the Commission over the payment of employer's contributions in respect of its employees' pension rights remains unsolved and calls on the Centre to strengthen its efforts in order to find an agreement. (*Doc 5972/06, 4th paragraph, page 28*)

**Commission's response:**

*The Commission has repeatedly tried to arrive at a solution, proposing approaches to the Management Board of the Translation Centre, including offers for a negotiation on some periods under consideration. None of these was successful and the Commission has now decided to lodge a complaint before the Court of Justice.*

## Conclusions on the follow-up of the 2003 discharge

58. As regards the actions taken to improve sound financial management, additional work to be done by the Commission regarding in particular the management of risk assessment. (Doc 6454/06, § 3, 3rd paragraph, page 2)

**Commission's response:**

*The recommendation is accepted. In 2005 the first steps towards a common approach on risk management in the Commission were made. In October the Communication Towards an effective and coherent risk management methodology in the Commission Services (SEC(2005)1327) was adopted. Following this communication, risk management was integrated, as a pilot exercise, into the 2006 programming and planning exercise. For the future the aim is to embed the risk management into both the planning, execution and reporting phases. As foreseen in the work-plan, new actions will be taken to analyse and manage cross-cutting and recurrent risks. Reflections to handle risks within families of DGs will also be considered. Further efforts will be made to improve the swift establishment of adequate action plans and their follow-up arrangements as well as to enhance the involvement of senior management in risk management.*

59. Take appropriate actions for the production of adequate indicators for activity-based management. (Doc 6454/06, § 4, 4th paragraph, page 2)

**Commission's response:**

*One of the 2004 Synthesis actions intended to make objectives and indicators a policy and management tool allowing, on the one hand, the Commission to monitor its performance and, on the other, stakeholders to assess the outcome of the Commission's work and its benefit for citizens.*

*This action has been developed in three phases:*

- Phase 1, concerning the definition of a repository of standard objectives and indicators for the horizontal activities "Policy strategy coordination" and "Administrative support "(finalised) ;*
- Phase 2 (on going), concerning the analysis and definition of objectives and indicators for programme management (by 'families" of DGs); and*
- Phase 3, related to the analysis and definition of objectives and indicators for all other Commission's activities outside programme management.*

60. As regards the new accounting system of the Commission, provide more adequate financial information on multi-annual projects. (Doc 6454/06, § 5, 1st paragraph, page 3)

**Commission's response:**

*The introduction of pre-financing has improved the financial information available concerning multi-annual projects. As the use of the new system continues, it is hoped that the quality of the financial information presented will also improve for these areas.*

61. As regards budgetary management, provide three times a year to the Budgetary Authority clear analytical information on the cumulative state of implementation of the most important Community programmes in comparison to the initial implementation plan. (Doc 6454/06, § 6, 3rd paragraph, page 3)

**Commission's response:**

*The Commission will not take the recommended action. In line with article 131 of the Financial regulation, the Commission already provides a report on implementation of the budget to the Budget authority three times a year. As to a specific analysis of the cumulative situation of major programmes, the Commission provides yearly such an analysis in its Report on the budgetary and financial management.*

62. As regards the Common agricultural policy (CAP), take further steps to strengthen control systems in areas that are not checked through IACS, as well as in the area of export refunds. (Doc 6454/06, § 6, 6th paragraph, page 3)

**Commission's response:**

*The Commission has taken the recommended action. It is committed to address continuing shortcomings still existing in the different areas of the CAP. The CAP reforms of 2003 and, for Mediterranean products, of 2004 reduce the overall risk by extending the expenditure covered by IACS to 89% by 2013.*

*As for export refunds, by Commission Regulation (EC) No 1454/2004 of 16.08.2005, it adapted Annex III to Regulation (EC) No 2090/2002, regulating the annual reports submitted by Member State authorities concerning their execution of physical and substitution checks on export refund goods. The 2005 annual reports recently received from Member States under Article 11 of Regulation 2090/2002 contain information for the first time from all Member States on the export refund value of the goods examined and the anomalies detected by the checks with a financial impact greater than €200.*

*Following the European Court of Auditors' Special Report 7/2001 and the COCOBU hearing on 22.01.2002, the Commission ordered a study on import procedures, customs documents and stamps in 50 third countries. The results of the study will serve as information and reference material for exporters and for paying agencies in the payment procedures for differentiated refunds. After problems with a first consultancy firm, a second firm delivered the 50 dossiers which have been published, in separate versions, on a restricted website with access for paying agencies. Publication on the public website (available to exporters) is expected before the end of July 2006.*

63. As regards structural measures, strengthen the collaboration with Member States in order to optimize the effectiveness of the current control system through simplification and streamlining of the rules. (*Doc 6454/06, § 6, 1st paragraph, page 4*)

**Commission's response:**

*The recommended action has been taken. The Commission furthered closer coordination with Member States on audit work in its 2003 communication on simplification. The coordination is intensifying under the measures identified in the "Roadmap" (COM(2005) 252) and Action Plan (COM(2006) 9), which include guidance activities and alignment of audit standards.*

64. As regards financial instruments and banking activities, Council welcomes the fact that all suggested measures regarding the financial instruments in favour of small and medium-sized enterprises have been applied and invites the Commission to act in the same way in similar financial sectors (*Doc 6454/06, § 6, 5th paragraph, page 5*)

**Commission's response:**

*The Commission is a provider of investment finance out of the Community budget, channelled through the European Bank and the European Investment Fund and through specialised programmes such as those targeted to SMEs and Trans-European Networks (TENs). Consistent rules in respect of calls on guarantees and State Aid are in place.*

65. As regards the devolution of EC external aid management to the Commission Delegations (SR 10/2004), continue work on developing further indicators for measuring improvements in the speed and quality of aid distribution. (*Doc 5971/06, 3rd paragraph, page 4*)

**Commission's response:**

*In 2004 indicators mainly related to commitments and payments, the average size of programmes, spread of commitments through the year, speed of payments, progress on the implementation of devolution, and indicators relating to the speed of clearing old and so-called dormant commitments.*

*Over 2005 the Commission has developed and refined a number of performance indicators which now relate to financial management, quality and speed. Indicators were refined and expanded to cover especially qualitative aspects of implementation such as rating of on-going projects in terms of relevance, efficiency, effectiveness, impact and sustainability, indicators in relation to the percentage of projects performing without major problems, percentage of assistance spent on budget support and sector approaches, and an indicator tracking the Commission internal coverage of quality support assistance in the design phase. More 'traditional' indicators on e.g. financial management, were refined to include contracting levels as a step after commitments, but proceeding payments.*

*All data is based on detailed performance indicators per regional programme. The aggregate data is the basis for discussions on external assistance performance in the group of External Relations Commissioners and is made available to the public at large on the EuropeAid website:*

*[http://europa.eu.int/comm/europeaid/general/index\\_en.htm](http://europa.eu.int/comm/europeaid/general/index_en.htm).*

*The Commission is aware that performance indicators need constant adaptation.*

*For 2006 it plans to integrate the indicators more in its internal planning and reporting cycles between headquarters and the 77 delegations field offices and 29 regionalised Delegations (delegations in third countries reporting to a Commission Delegation with regional responsibility) responsible for implementing most of external assistance. Quality and impact indicators will most likely be refined as well, as the Commission will expand the independent monitoring function it has in place for on-going projects and programmes to their completion phase. During 2006 indicators covering thematic issues will be developed as well. Furthermore, indicators for workload will be developed to assist the Commission in better adapting to changing assistance profiles in the different regions in the world.*

*The Commission expects the work on the refinement of quality, impact and performance indicators to continue during 2007.*

66. As regards the devolution of EC external aid management to the Commission Delegations (SR 10/2004), on completion of the devolution process, monitor the actual costs of devolution against the estimated costs. (*Doc 5971/06, 3rd paragraph, page 4*)

**Commission's response:**

*The recommended action has been taken.*

*As far as costs are concerned, the Commission services have undertaken a comparison of the actual costs against the estimated costs. As the operation only commenced quite late in 2001, this year (excluding de-concentration costs) has been taken as the base year for comparison with the expenditure of the years 2002 to 2005. This comparison shows that the total actual costs over the period 2002 to 2005 have been lower than expected (2002: - 18%; 2003: - 23%; 2004: - 14% and 2005: + 7,8%).*

*For the purpose of this comparison it has been considered that all increases in expenditure which is executed by Headquarters, such as salaries of officials and certain infrastructure costs which is not readily identifiable with the delegations concerned by devolution, was in fact due to devolution. This approach has the effect of maximising the estimated actual cost compared to the original estimates.*

67. As regards the devolution of EC external aid management to the Commission Delegations (SR 10/2004), continue efforts to improve recruitment procedures and conditions in Delegations, in particular by improving ways of filling posts in countries regarded as difficult. (*Doc 5971/06, 3rd paragraph, page 4*)

**Commission's response:**

*The recommended action has been taken.*

*As regards procedures for the recruitment of officials, considerable efforts have been made jointly by EuropAid and DG RELEX to select experienced candidates, on the basis of systematic and rigorous panels in accordance with the requirements of the Commission's administrative reform.*

*In particular, the 2004 reform of the Staff Regulations allowed an increase in allowances for living conditions for the most difficult locations.*

*Using the recruitment procedures for contract staff in delegations (new staff category made by the 2004 reform of the Staff Regulations /CEOS), DG RELEX was able to organise a large number of interviews placing these candidates (external and job-holders) in competition in order to identify the best via selection committees. In general, the contract conditions, salaries, and career prospects are more advantageous than those offered under the old ALAT contracts because contract staff are eligible for the principal benefits of Annex X to the Staff Regulations.*

*As regards salaries and conditions of employment, the method of fixing and reviewing the salaries of local agents, which has been in force since 2001 and was agreed by staff organisations and trade unions, allows competitive wage-fixing on*

*the local job market which creates good conditions for recruiting high-quality personnel.*

68. As regards the devolution of EC external aid management to the Commission Delegations (SR 10/2004), develop EuropeAID's monitoring and support role. (Doc 5971/06, 3rd paragraph, page 4)

**Commission's response:**

*With the creation of AIDCO in 2001 all expertise in the area of project and programme management was brought together in one functional set-up. Since then, AIDCO has been reorganised twice, in both cases to respond better to the changing needs of a post-devolution environment. The reorganisation of March 2005 resulted in a better monitoring and support role for headquarters, through reinforced geographical coordination, more quality and support focus through a new Operations Quality Support Directorate and a reinforced structure for quality support (QSG): revised identification sheets and checklists in order to better assist delegations in identifying critical issues.*

*Other support functions that have been improved are:*

- the support on demand on sector policy dialogue with national counterparts, methodological issues related to sector approaches, programme / project identification and formulation;*
- the constant improvement of operational guidelines and practical tools including training and workshops; and the*
- exchange of best practices with delegations and the organisation of thematic networks.*

*Other monitoring functions that have been improved are: the refinement of AIDCO key performance indicators; delegation reporting (review of the frequency and coherence of the so-called External Actions Management Reports (EAMR) on assistance with the objectives of the Annual Management Plans; and the closer monitoring of Delegation commitments, contracting and payment levels through the publication of semester figures.*

69. As regards the devolution of EC external aid management to the Commission Delegations (SR 10/2004), increase simplification, harmonisation and clarification of financial and contractual procedures. (Doc 5971/06, 3rd paragraph, page 4)

**Commission's response:**

*The Commission has recently made substantial simplification efforts which resulted in the creation of a practical guide on contract procedures in the field of external aid which entered into force on 01 February 2006.*

70. As regards the verification of agri-environment expenditure for rural development maintain control of the application of the agri-environment measures provided for under the rural development policy, and find balance between maintaining control of

agri-environment measures and the cost of managing that control. (Doc 5971/06, 2nd and 3rd paragraph, page 8)

**Commission's response:**

***The Commission is taking the recommended action. In the implementing rules of Council Regulation (EC) N° 1698/2005 which are currently under discussion with the Member States, the Commission inserted the following proposal :***

***"Member States shall ensure that all the rural development measures they intend to implement are verifiable and controllable. To this end, Member States shall define control arrangements that give them the reasonable assurance that eligibility criteria and other commitments are respected".***

***For measures with calculations of support, the figures should be appropriately certified by specialised bodies. For agri-environment more particularly, a provision with regard to commitments limiting use of inputs (e.g. fertilisers, pesticides) has been proposed:***

***"Commitments to limit the use of fertilisers, plant protection products or other inputs shall be accepted only if such limitations can be assessed in a way that provides reasonable assurance about the respect of the commitments".***

***The draft implementing regulation, after discussion and vote of the Member States in the Rural Development Management Committee, will be adopted by the Commission.***

71. As regards interpretation expenditure, efforts should be made by reducing late cancellations, last-minute meeting requests and unequal distribution of meetings over the course of the week and the year. (Doc 5971/06, 3rd paragraph, page 9)

**Commission's response:**

***The recommended action has been taken: the Commission has implemented awareness raising actions, also involving other institutions, and is putting into place a new invoicing system that will enable an improved management of cancellations.***

***However, concerning the requests from other institutions (Council, CdR, CES, etc.), the planning of these meetings is out of the Commission's control.***

72. As regards interpretation expenditure, further savings are possible through a better management of meetings, on request linguistic arrangements, a review of the level of resources kept on standby, a further integration of computer services and interinstitutional cooperation between all institutions. (Doc 5971/06, 4th paragraph, page 9)

**Commission's response:**

***The recommended action has been taken. Major enhancements have been achieved by the establishment of an interinstitutional common list for the recruitment of freelance interpreters and following the creation of advanced IT***



*tools allowing the institutions to exchange information on freelance recruitment. However, the nature of the services to be provided substantially limits the scope for further savings.*

73. As regards interpretation expenditure, maintain the high quality of interpretation provided in the institutions while controlling costs, and all institutions to assess regularly the quality of interpretation, including making inquiries of the final users. (Doc 5971/06, 5th paragraph, page 9)

**Commission's response:**

*The recommended action has been taken. The Commission has put into place an automatic system to permanently monitor at its meetings the level of satisfaction of the final users. Moreover, contacts are being developed with the Council, the Social and Economic Committee and the Committee of Regions to further extend the access to the IT tools used by the Commission for this purpose.*

74. As regards interpretation, all institutions to apply one another's best practices in order to set up efficient systems to avoid the provision of interpretation services exceeding real requirements, including forecasting the expected use of languages, monitoring actual use, maintenance of updated interpretation language profiles by users, keeping a list of interpretation facilities requested but not used and surveys to assess such cases. (Doc 5971/06, 1st paragraph, page 10)

**Commission's response:**

*The Commission is taking the recommended action by running and analysing updated statistics on the actual use of interpretation services and facilities, and by actively promoting inter-institutional co-operation to increase the efficiency of its services. The new invoicing system that will enter into force as from the 1st of January 2007 will also improve the management of available resources.*

75. As regards interpretation expenditure, renegotiate the agreement signed between the International Association of Conference Interpreters (IACI) and the three institutions, aiming at reducing all elements of the costs. (Doc 5971/06, 2nd paragraph, page 10)

**Commission's response:**

*The Commission is taking the recommended action by preparing the re-negotiation of the agreement that applies to freelance interpreters. The Commission already reached an agreement with the Court of Justice and the Parliament on a negotiation mandate, and a formal request to open negotiations with International Association of Conference Interpreters (IACI) is planned before the 2006 summer break.*

76. As regards interpretation expenditure, examine carefully the policy of providing interpretation either by permanent staff or ACIs in order to have an appropriate availability of interpretation resources either local or non-local, permanent or freelance, taking into account the balance between permanent and freelance interpreters for working languages involving high travel expenses. (Doc 5971/06, 3rd paragraph, page 10)

**Commission's response:**

*The Commission is taking the recommended action by launching an external and independent inter-institutional study on the possible options to reduce the interpretation costs by better balancing the use staff and freelance interpreters, and also considering the availability of local and non local freelances. The conclusions of the study are expected to be available by mid 2007.*

77. As regards interpretation expenditure, undertake an independent evaluation concerning the possible costs and benefits of the creation of one single interinstitutional Office providing interpretation services to all EU institutions, compared with those achieved by an increased interinstitutional cooperation. (Doc 5971/06, 5th paragraph, page 10)

**Commission's response:**

*The Commission is prepared to accept the recommended action, but its actual interinstitutional scope makes its implementation largely dependant on an agreement at inter institutional level, yet to be achieved. The Parliament is expected to approve a report stating a position on this issue on the 4th of September 2006. However, on the 4th September 2005 the "Bureau" already stated that action was considered against the interests of the Institution.*

78. As regards the management of the European Anti-Fraud Office (OLAF) (SR 1/2005), the Commission to regularly report back on the progress made following the conclusions of the Council. (Doc 5971/06, 1st paragraph, page 7)

**Commission's response:**

*The Commission agrees to report regularly to the Council on the progress made in line with the Council's conclusions on the Special Report of the Court of Auditors on the management of OLAF.*

79. As regards interpretation expenditure, ensure that sufficient competitions are organised on time to make interpretation services in all languages available. (Doc 5971/06, 4th paragraph, page 10)

**Commission's response:**

*In accordance with the EPSO's work program, series of interpreters' competitions have been organised and / or are ongoing as follows:*

*1. Enlargement (EUR 10):*

*EPSO/LA/1-9/03 81 laureates (Target 500)*

*EPSO/AD/8-16/05 level AD9: reserve lists will be available between September and December 2006 according to the language (target =15 laureates per language).*

*2. Enlargement (EUR 2):*

*EPSO/AD/33-34/05 level AD5: reserve lists will be available on December 2006 (target 100 per language).*

**3. EUR 11:**

*To be published in the second half of 2006: interpreters' competitions levels AD5 and AD7.*

*Languages: EN, FR, IT, DE, PT (target 55 laureates per language).*